



8011-01p

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34- 73928; File No. SR-NYSEARCA-2014-145) Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Amending Rule 6.76A by Revising the Order Allocation Methodology for Certain Orders of Five Contracts or Fewer

December 23, 2014

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 22, 2014, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 6.76A by revising the order allocation methodology for certain orders of five contracts or fewer. The text of the proposed rule change is available on the Exchange’s website at www.nyse.com, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend Rules 6.76A by revising the order allocation methodology for certain orders of five (5) contracts or fewer. As proposed, for all incoming orders of five contracts or fewer the Lead Market Maker ("LMM") would be allocated the full contract size up to the size of the LMM's quote, provided the LMM is quoting at the NBBO and there is no Customer interest at the same price ranked ahead of the LMM.

Rule 6.76A sets forth the priority for the allocation of incoming orders against bids and offers in the Display Order Process at a particular price in the NYSE Arca System ("System"). Specifically, pursuant to Rule 6.76A(a)(1)(A), if there is an LMM quoting at the NBBO, and there is no Customer interest ranked ahead of the LMM, nor is the incoming order a Directed Order, the incoming order will be matched against the quote of the LMM for either: (a) an amount equal to 40% of the incoming order up to the LMM's disseminated quote size; or (b) the LMM's share in the order of ranking, whichever is greater. Generally speaking, this means an LMM receives a guaranteed 40% trade allocation on any incoming order provided the LMM is quoting at the NBBO, and there is no Customer interest ranked ahead of the LMM.

The Exchange is proposing to revise the order allocation methodology to provide that if the LMM is entitled to an allocation pursuant to Rule 6.76A(a)(1)(A) and the entire contract size of the incoming order is five (5) contracts or fewer, the LMM would be allocated the full contract size up to the size of the LMM's quote. As proposed, Rule 6.76A(1)(B) would state, "If the LMM is entitled to an allocation pursuant to (a)(1)(A) above, for all incoming orders of five

(5) contracts or fewer, the LMM will be allocated the full contract size up to the size of the LMM's quote.” This proposed change would affect only those incoming orders of five contracts or fewer. The Exchange notes that the proposed rule is only available if the LMM is entitled to an allocation, which means that if there is Customer interest at the same price ranked ahead of the LMM, such Customer interest would continue to have priority, even for executions of five contracts or fewer. In addition, an LMM must be quoting at the NBBO to be entitled to trade with orders of five contracts or fewer.³ The Exchange is not proposing any changes to the order allocation methodology for executions greater than five contracts.

The allocation of orders of five contracts or fewer to a specific type of market maker (i.e. LMM) is consistent with similar methodology for allocating small size orders on other options exchanges. For example, the Chicago Board Options Exchange (“CBOE”) may allocate all orders of five contracts or fewer to an LMM or Designated Primary Market Maker (“DPM”),⁴ NYSE Amex Options allocates orders of five contracts or fewer to the Primary Specialist,⁵ and the International Securities Exchange (“ISE”) allocates all orders of five contracts or fewer to the Primary Market Maker (“PMM”).⁶ The Exchange’s proposal would provide its LMMs the same guaranteed allocation of orders of five contracts or fewer as these exchanges provide to their DPMs, Specialist, or PMMs. Specifically, the Exchange, like NYSE Amex Options, and the ISE, would condition this guaranteed allocation on there being no Customer orders ranked ahead

³ If the LMM is not quoting at the NBBO, or the LMM is quoting at the NBBO but for less size than the incoming order of five contracts or fewer, any remaining balance of the incoming order will be matched against orders and quotes in the Display Order Process in the order of their ranking.

⁴ See CBOE Rule 6.45B(a)(iii)(1).

⁵ See NYSE MKT Rule 964NY(b)(2)(C)(iv).

⁶ See ISE Rule 713 Supplementary Material .01(c).

of the LMM, the LMM quoting at the NBBO, and the trade allocation not exceeding the number of contracts than the LMM is quoting.

The Exchange believes that the allocation of order of five contracts or fewer will not result in a significant portion of the Exchange's volume being executed by the LMM. Nevertheless, the Exchange would monitor the sizes of all orders received, and, on a quarterly basis, evaluate the percentage of volume constituted by orders of five contracts or fewer that were allocated to an LMM. If the percentage of the volume executed on the Exchange comprised of orders for five (5) contracts or fewer executed by an LMM is over forty percent (40%), the Exchange will reduce the size of the orders guaranteed to the LMM in this provision. Conducting a quarterly review of Exchange volume and analyzing the percentage of orders of five contracts or fewer is consistent with review processes at other exchanges with comparable allocation methodology for small size orders.⁷ The Exchange proposes to include the evaluation process in new Commentary .02 to Rule 6.76A.

The proposed allocation methodology described above is part of NYSE Arca's careful balancing of the rewards and obligations that pertain to each of the Exchange's classes of memberships. This balancing is part of the overall market structure that is designed to encourage vigorous price competition among Market Makers, as well as to maximize the benefits of price competition resulting from the entry of Customer and non-Customer orders, while encouraging participants to provide market depth. The Exchange believes by offering LMMs a greater allocation on executions of five contracts or fewer, similar to what their counterparts on other exchanges receive, the proposed change, which guarantees participation rights for LMMs only when quoting at the best price, strikes the appropriate balance between the obligations of LMMs

⁷ See NYSE MKT Rule 964NY Commentary .01, ISE Rule 713 Supplementary Material .01(c), and CBOE Rule 6.45B(a)(iii)(1)(A).

to provide meaningful depth and liquidity, and the rewards they receive for doing so. Furthermore, the Exchange believes that the revised trade allocation process, which is competitive with those offered on other exchanges,⁸ will help to ensure that NYSE Arca is able to continue to attract quality LMMs willing to provide deep meaningful markets to the investing public.

The Exchange is also proposing minor non-substantive changes to the numbering convention of Rule 6.76A to accommodate the rule change described above.

The Exchange will issue a notice announcing the implementation date of the proposed rule change no later than 30-days after the effective date of this filing.

2. Statutory Basis

The Exchange believes that this proposed rule change is consistent with section 6(b) of the Securities Exchange Act of 1934 (“Act”)⁹, in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁰ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. In particular, and as described above, the Exchange believes the proposed rule change is part of the balancing of NYSE Arca’s overall market structure, which is designed to encourage vigorous price competition between Market Makers. In addition, the Exchange believes the proposed rule change furthers the objectives of the Act because it is also designed to help ensure that NYSE Arca is able to attract quality LMMs willing to provide deep meaningful markets to the investing public. Increasing quote competition should

⁸ Supra nn. 4, 5, and 6.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

lead to narrower spreads and more liquid markets and thus benefit investors. Narrower spreads and more liquid markets can serve as a catalyst to attracting additional order flow to the Exchange, enhancing price discovery and generally benefiting all participants on the Exchange.

The Exchange further believes that the proposed rule change would be not be unfairly discriminatory in allocating orders of five contracts or fewer to the LMM. To help ensure that one class of Market Maker is not unduly enriched by this proposal, the Exchange would monitor the sizes of all orders received, and by using objective criteria, if it determines that the proposed allocation process could be seen as discriminatory because of an unfair share of trade allocations going to the LMM, would reduce the eligible size for orders included in this provision.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In fact, the Exchange feels that the proposed change will increase competition amongst Market Makers seeking appointments as LMMs which should result in narrower spreads and more liquid markets for investors. In addition, by offering an allocation methodology similar to those offered at other exchanges, NYSE Arca will be in a better position to compete with those exchanges in attracting well capitalized Market Makers willing to make deep liquid markets while acting as an LMM.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has filed the proposed rule change pursuant to section 19(b)(3)(A)(iii) of

the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹² Because the proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative prior to 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, it has become effective pursuant to section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(6) thereunder.¹⁴

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

¹¹ 15 U.S.C. 78s(b)(3)(A)(iii).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEARCA-2014-145 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEARCA-2014-145. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of NYSE Arca. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-NYSEARCA-2014-145 and should be submitted on or before [INSERT DATE 21 DAYS FROM PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Kevin M. O'Neill,
Deputy Secretary.

[FR Doc. 2014-30589 Filed 12/30/2014 at 8:45 am; Publication Date: 12/31/2014]

¹⁵ 17 CFR 200.30-3(a)(12).